Aeroflex Finance Private Limited

POLICY ON INTEREST RATE MODEL & GRADATION OF RISK

Policy Title	Policy on Interest Rate Model & Gradation of Risk
Reviewing & Approving Authority	Board / Risk Management Committee
Date of approval	January 07, 2019
Last Reviewed on	July 28, 2026
Review Cycle	Annually or as recommended by the Board of Directors

Review History

Sr No.	Version No.	Date	Remarks
1	1.0	07/01/2019	Adopted in Board Meeting dated 07/01/2019
2	2.0	09/06/2020	Reviewed in Board Meeting dated 09/06/2020
3	3.0	06/07/2021	Reviewed in Board Meeting dated 06/07/2021
4	4.0	10/08/2022	Reviewed in Board Meeting dated 10/08/2022
5	5.0	02/05/2023	Reviewed in Board Meeting dated 02/05/2023
6	6.0	03/06/2024	Reviewed in Board Meeting dated 03/06/2024
7	7.0	22/07/2025	Reviewed in Board Meeting dated 22/07/2025
8	8.0	28/07/2026	Reviewed in Board Meeting dated 28/07/2026

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1. Background

As per the Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025 dated November 28, 2025, as updated from time to time, all NBFCs shall adopt an interest rate model taking into account relevant factors such as the cost of funds, margin, and risk premium, and determine the rate of interest charged for loans and advances.

The rate of interest and the approach for gradation of risk, along with the rationale for charging different rates of interest to different categories of borrowers, shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

The rates of interest and the approach for gradation of risks shall also be made available on the website of Aeroflex Finance Private Limited ("the Company") or published in the relevant newspapers, wherever applicable. The information published on the website or otherwise published shall be updated as and when there is any change in the rates of interest.

2. Objective of the Policy:

To determine the benchmark rates to be used for arriving at the final rate to be charged to the borrowers/customers for various products financed by Aeroflex Finance Private Limited ("the Company").

3. Review of the Policy

Any change in the benchmark rate shall be decided by the Board of Directors of Aeroflex Finance Private Limited ("the Company") for approval at the subsequent Board Meeting.

The Policy shall be reviewed by the ALCO as and when required, but at least once in a year.

The Business Team shall have the authority to fix its internal pricing under the overall framework of the Board-approved Interest Rate Policy for deciding the spreads to arrive at the final rate to be charged to the borrowers/customers.

The rate of interest charged to a borrower shall at all times remain within the Board-approved product-wise interest rate range referred to in this Policy. Any deviation from the approved range shall require the prior approval of the competent authority designated by the Board.

The pricing model and the risk-based pricing methodology adopted by the Company shall be reviewed periodically by the ALCO, and the interest rate ranges shall be reviewed at least annually, or earlier if warranted by changes in the cost of funds, regulatory requirements, or market conditions.

4. Interest Rate Model

The rate of interest shall be determined based on the cost of borrowed funds, matching tenor cost, market liquidity, refinance avenues, RBI Repo Rate, offerings by competitors, tenure of customer relationship, cost of funds, etc. In addition to the cost of funds, the rate of interest shall further be determined with a risk premium, which is based on the inherent credit and default risk in the products and the customer per se arising from customer segment, profile of the customers, professional qualification, stability in earnings and employment, repayment ability, overall customer yield, nature and value of primary and collateral securities, past repayment track record of the customers, external ratings of the customers, industry trends, etc.

In addition to the factors set out above, the final rate of interest applicable to a borrower shall be arrived at after considering, wherever relevant, the borrower's internal credit assessment, credit bureau score, repayment capacity, income profile, existing indebtedness, vintage of the customer relationship, loan amount and tenure, nature of security (secured/unsecured), industry or business segment, probability of default and Loss Given Default (LGD) wherever applicable, cost of funds, operating expenses, expected credit losses, portfolio performance, regulatory capital requirements, and prevailing market conditions. No single factor shall, by itself, be determinative of the rate of interest charged to a borrower.

Risk Category Matrix

For guidance in the application of risk-based pricing, borrowers may broadly be classified into the following illustrative risk categories, without prejudice to the Company's discretion to apply additional underwriting parameters:

Risk Category	Illustrative Characteristics	Pricing Approach
Low Risk	Strong repayment history, high credit score, stable income	Lower end of the approved rate band
Medium Risk	Average credit profile	Mid-range pricing within the approved rate band
High Risk	Higher credit risk, limited credit history, elevated repayment risk	Higher end of the approved rate band

The Company may adopt an interest rate model whereby the rate of interest for the same product and tenor availed during the same period might differ from customer to customer depending upon consideration of any or a combination of a few or all the factors listed above. Hence, the interest rate applied may be different from customer to customer on his/her loans.

The rate of interest shall be an annualised rate, so that the borrower is aware of the exact rate that would be charged to the loan account.

"Aeroflex Reference Rate" means the rate referred to by Aeroflex Finance Private Limited ("the Company") in the loan/credit facility agreements for arriving at the final interest rate to be charged to the borrower.

"Fixed Rate of Interest" means the fixed rate of interest applicable on the loan as specified in Schedule I hereunder, which is subject to review by the Company from time to time.

"Floating Rate of Interest" means the difference between the Aeroflex Reference Rate and the Spread applied by the Company to the loan/credit facility granted to the borrower, as may be decided by the Company from time to time, pursuant to the terms of the Loan/Credit Facility Agreement.

"Spread" means the risk premium applied for arriving at the final interest rate charged to the borrower.

Depending upon the various risks and returns from the products financed by the Company, the Company may lend through both fixed and floating rates of interest. **Product-wise Interest Rate Range**

The Board approves broad interest rate bands for each lending product set out below, and the actual rate of interest charged to a borrower shall be determined within the approved range based on the Company's risk assessment of the borrower, in accordance with the interest rate model set out in this Policy.

Loan Product	Indicative Interest Rate Range (p.a.)
Personal Loans	12% – 60% (illustrative)
SME/Business Loan	09% – 45% (illustrative)
Working Capital Loan	09% – 45% (illustrative)

The above ranges are indicative and may be revised by the Board or the competent authority from time to time, depending upon market conditions, cost of funds, regulatory requirements, and business strategy.

Interest Rate on New Products

Interest rate on any new product or new variant of the existing products launched by the Company shall be as per the Board-approved New Product Framework or such internal approval framework as approved by the Board of Directors.

The interest rate benchmark referred to as the Aeroflex Reference Rate shall be calculated considering the sum of the below factors, including prevailing market factors and any other factors as suggested and approved by Board of Directors, as applicable:

1. **Base Cost of Funds:**

The Company borrows funds through various long-term and short-term sources, including term loans, Non-Convertible Debentures (NCDs), Working Capital facilities (CC/WCDL), Commercial Papers (CPs), Inter-Corporate Deposits (ICDs), etc., as applicable.

The weighted average cost of all borrowings (including other costs such as processing fees, brokerage, etc.) over average borrowings shall be considered for benchmark calculation.

2. **Estimated Variable Operating Expenses (Opex):**

It includes estimated fixed and variable operating costs, including employee expenses, administrative expenses, sales and marketing expenses, etc.

3. **Expected ROA:**

Expected Return on Assets (ROA) is the minimum return expected by the Company on its income-earning assets.

5. Other Charges:

Other financial fees and charges for the loans, such as processing fees, operating charges including cheque bouncing charges, late payment charges / penal charges, rescheduling charges, prepayment / foreclosure charges, charges for issuance of statement of account, etc., shall be decided by the Company in accordance with the applicable Board-approved policies**,** prevailing market practices, and applicable Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025**,** as amended from time to time.

Legal charges such as stamp duty, Goods and Services Tax (GST), and other applicable taxes, duties, levies, or cess shall be recovered from the borrower at the applicable rates prevailing from time to time and shall be determined by the Company in consultation with the concerned business, finance, operations, and legal functions, as applicable.

Communication of Interest Rate / Charges:

Interest rates and other charges shall be intimated to the borrowers/customers at the time of sanction and/or availing of the loan by Aeroflex Finance Private Limited ("the Company"). Such disclosure, including the rate of interest and the rationale for gradation of risk, shall also be made in the application form, in addition to being communicated explicitly in the sanction letter.

The borrower shall be informed of the applicable annualised rate of interest before execution of the loan agreement. The Company shall ensure compliance with the applicable Reserve Bank of India directions relating to fair lending practices, transparency in pricing, and disclosure requirements.

The Interest Rate Policy, along with the rate of interest charged to the borrowers/customers, shall be uploaded on the website of the Company and shall be updated as and when there are changes in the rates.

Further, any changes in the rate of interest or other applicable charges for existing borrowers/customers shall also be communicated to them in accordance with the applicable regulatory requirements.

6. Rate Reset Provision (Applicable for Floating Rate of Interest)

The rate reset provision shall be applicable to the floating rate loan products offered by Aeroflex Finance Private Limited ("the Company"), in accordance with the applicable provisions of the Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Directions, 2025, as amended from time to time.

Currently, the rate reset provision shall be applicable to the following floating rate loan products offered by the Company:

- SME / Business Loans (where applicable)
- Working Capital Loans (where applicable)
- Any other floating rate loan product introduced by the Company from time to time

The Company shall provide the borrowers, at the time of sanction and at the time of each reset of the floating rate of interest, all disclosures and options as prescribed under the applicable RBI Directions, including changes in Equated Monthly Instalment (EMI), loan tenor, or both, wherever applicable.

The provisions of the applicable RBI Directions shall apply to both the existing borrowers and new borrowers from the effective date prescribed by the Reserve Bank of India.

7. Provisions

1. At the time of sanction, the Company shall clearly communicate to the borrowers the possible impact of any change in the benchmark interest rate on the loan, leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI, tenor, or both on account of the above shall be communicated to the borrower immediately through appropriate channels.

2. At the time of reset of interest rates, the Company may, at its option, provide the borrowers, wherever applicable, the option to switch over to a fixed rate of interest in accordance with the Board-approved Interest Rate Policy.

3. The borrower shall be allowed to switch over to a fixed rate for a period of two years from the switch date, for such maximum number of requests during the tenor of the loan as decided by the Board of Directors (maximum of two switch options throughout the tenor of the loan, and the incremental rate for Fixed Rate Loans shall be up to

1% higher than the existing Floating Rate on the loan before such revision), depending on the maturity of the liabilities and the specific applicable products.

2.. The borrowers shall also be given the choice to opt for:

(i) enhancement in EMI or elongation of tenor or for a combination of both options; and,

(ii) prepayment, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/prepayment charges shall be subject to the applicable RBI Directions and the Company's Board-approved policy.

5. All applicable charges for switching of loans from floating to fixed rate and any other service charges/administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter, loan agreement, Key Fact Statement (KFS), and at the time of revision of such charges/costs by the Company from time to time. The switching fee, if applicable, shall be as per the Board-approved Schedule of Charges, as amended from time to time.

6. The Company shall ensure that elongation of tenor in case of floating rate loans does not result in negative amortisation.

3. The Company shall provide the borrower with a Statement of Account and/or any other communication upon request by the Borrower, covering the following details:

i) Repayments made till date (Principal and Interest);

ii) EMI amount and number of EMIs remaining;

iii)Annualised Rate of Interest (ROI) / Annual Percentage Rate (APR) for the entire tenor of the loan.

The Statement of Account/document shall be provided in a simple and easy-to-understand manner.

Note:

Apart from Equated Monthly Instalment (EMI) loans, these instructions shall also apply, mutatis mutandis, to all equated instalment-based loans of different periodicities, irrespective of whether such loans are linked to an external benchmark or an internal benchmark The Company shall also put in place adequate information systems to ensure timely communication of any changes in the benchmark/reference rate and the consequent lending rate to the borrowers, wherever applicable.

8. Review of the Policy

The Policy shall be reviewed by the Board of Directors at such intervals as the Company may deem necessary, and in any case at least once in a year**,** unless statutorily otherwise required.

Any amendments, modifications, clarifications, circulars, directions, or regulatory changes issued by the Reserve Bank of India (RBI)**,** the Ministry of Corporate Affairs (MCA)**,** or any other applicable statutory or regulatory authority shall be deemed to be incorporated into this Policy from the effective date of such changes, and the Policy shall be updated accordingly from time to time.

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